

# Memorandum

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Be energy efficient!*

**o:** CRAIG HOLSTE  
Deputy District Director  
District 9  
Division of Maintenance and Operations

**Date:** April 22, 2010

**File:** P3030-0647

## **ORIGINAL SIGNED BY:**

**From:** GERALD A. LONG  
Deputy Director  
Audits and Investigations

**Subject:** District 9 Maintenance Office Review

Attached for your information is Audits and Investigations' (A&I) final report for the District 9 Maintenance Office Review. This review was performed as a management service for your consideration in the oversight role of the Maintenance and Operations Unit.

We thank you and your staff for its assistance during our review. A&I's review is an independent internal review intended to provide you with feedback for your management's consideration.

If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107.

## **Attachment**

**c:** Tom Hallenbeck, District Director, District 9  
Steve Takigawa, Chief, Division of Maintenance  
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations  
Paula Rivera, Internal Audit Supervisor, Audits and Investigations

<b>P3030-0647</b>
<b>District 9 Maintenance Review</b>
<b>April 2009</b>

**Gerald A. Long**  
**Deputy Director**  
**Audits and Investigations**  
**California Department of Transportation**

## **DISTRICT 9 - MAINTENANCE REVIEW**

### **SUMMARY**

Audits and Investigations has completed a maintenance review of District 9. The purpose of the review was to assess whether accounting and administrative procedures were being followed, fiscal data was entered properly into the accounting sub-systems, and proper measures were in effect to safeguard the California Department of Transportation's (Department) assets. The review was performed as a management service for your consideration in your oversight role of the Maintenance Unit.

Our examination of the accounting records and control procedures was based on the district's compliance with the Department's Accounting Manual, State Administrative Manual (SAM), and departmental policies and procedures. The scope of our review covered personnel time and payroll records, overtime and warrant distribution procedures, cash, purchases, damage reports, bulk fuel, chemicals and explosives, and other records and tests as deemed necessary.

Our review disclosed that the accounting records and control procedures followed by the District 9 Maintenance Unit generally were in compliance with the Department's Accounting Manual, SAM, and departmental policies and procedures, except as follows:

- **Noncompliance with Established Payroll & Personnel Criteria**
- **CAL-Card Deficiencies**
- **Absence of Conflict of Interest Certification ADM-3043**
- **Weaknesses in Damage Claim Process**
- **Weaknesses in Bulk Fuel Management**
- **Chemical Inventory Control Deficiencies**
- **Explosive Inventory Control Deficiencies**

### **OBJECTIVES**

The objectives of the maintenance review were to assess whether accounting and administrative controls were being followed, fiscal data was entered properly into the accounting sub-systems, and proper measures were in effect to safeguard the Department's assets.

### **SCOPE AND METHODOLOGY**

The scope of our review included personnel time and payroll records, overtime and warrant distribution procedures, purchases, damage reports, CAL-Card, bulk fuel, home storage permits, chemical and explosive inventories, and other records and tests as deemed necessary. Our review did not include a review of cookhouses and bunkhouses or petty cash, as these items do not exist in this district. Our methodology consisted of interviewing personnel, reviewing records, and performing other analytical procedures and tests as we considered necessary.

The period of the review focused on District transactions and operations from July 1, 2008, through June 30, 2009.

## **DISTRICT 9 - MAINTENANCE REVIEW**

### **RESULTS**

The maintenance review disclosed that the District 9 Maintenance Unit followed accounting and administrative procedures, entered fiscal data properly into the accounting sub-systems, and took proper measures to safeguard the Department's assets. However, we identified the following deficiencies where internal controls can be improved:

- **Noncompliance with Established Payroll & Personnel Criteria**
- **CAL-Card Deficiencies**
- **Absence of Conflict of Interest Certification ADM-3043**
- **Weaknesses in Damage Claim Process**
- **Weaknesses in Bulk Fuel Management**
- **Chemical Inventory Control Deficiencies**
- **Explosive Inventory Control Deficiencies**

For further information, please see the Attachment.

We hope this review proves useful in your oversight role of the District 9 Maintenance Unit. If you have any questions, please contact Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107.

### **ORIGINAL SIGNED BY:**

**GERALD A. LONG**  
**Deputy Director**  
**Audits and Investigations**

**July 30, 2009**  
**(Last Day of Field Work)**

Attachment

**Audit Team:**  
Laurine Bohamera, Chief, Internal Audits  
Paula Rivera, Audit Supervisor  
Teresa Draeger, Auditor  
Chantha Da, Auditor

## **ATTACHMENT**

### **DISTRICT 9 - MAINTENANCE REVIEW**

#### **1. Noncompliance with Established Payroll & Personnel Criteria**

##### **Background:**

State employees are allowed a maximum vacation or annual leave accrual of 640 leave hours per the Department of Personnel Administration's (DPA) policy and Memorandums of Understanding for represented employees. It is the responsibility of the supervisor to ensure that employees with excess leave submit a plan to reduce the excessive balance by the end of that year or the subsequent year. In addition, the State Administrative Manual (SAM) requires pre-approval of planned overtime.

##### **Issue:**

We reviewed payroll records to determine if the time recorded agreed with the personnel records, proper signatures were on file, direct deposit eligibility, and if employee accrued leave hour balances were in compliance with the 640 hour limit/cap. Overall, the payroll function is adequate. However, we identified the following:

- Four (4) of 16 employees had leave balances exceeding the established limit.
- One (1) of 2 employees with planned overtime did not have a pre-approved form on file.

The Department's Division of Human Resources' Personnel Information Bulletin 09-16 establishes a maximum vacation or annual leave accrual limit/cap of 640 hours for non-represented and represented employees. Supervisors are responsible for ensuring employees with excess leave balances meet the established requirements.

The Governor's Executive Order S-13-09 ordered the DPA to adopt a plan to implement a three-day per month furlough of State employees. As directed by DPA, full-time employees are furloughed the equivalent of three days per month. The Furlough Program began with the July 2009 pay period and will conclude in June 2010. The Furlough Program requires employees to use available furlough hours prior to using other leave hours. As a result, employee's leave balances may exceed established limits.

Employees accruing in excess of the established limit/cap of 640 hours will create an unexpected and unbudgeted liability for the State of California by having to pay out excess leave when an employee separates from the State.

SAM Chapter 8540 requires prior written approval, signed by a supervisor, for planned overtime hours worked. The majority of the District's Maintenance overtime hours result from emergency call outs, which do not require prior written approval. As a result, employees are not accustomed to obtaining prior written approval for overtime. Undocumented prior approval of planned overtime results in noncompliance with SAM Chapter 8540.

### Recommendation:

We recommend District 9 Maintenance management:

- Develop a plan for supervisors to regularly review employee vacation and annual leave balances and identify employees who have the potential to exceed 640 hours; and ensure that supervisors require such employees to submit a plan to reduce their leave hours to the allowable limit by the end of that year or the subsequent year.
- Ensure that approval of pre-planned overtime is documented.

## **2. CAL-Card Deficiencies**

### Background:

CAL-Cards are used widely throughout the District as an alternate means to procure goods and services for purchases under \$5,000, with delegation of authority passed from the Division of Procurement and Contracts (DPAC) to the approving officials (AOs) and cardholders (CHs). CHs are assigned to an AO, who reviews and approves the CH's charges and Statement of Account (SOA) purchases. The CH is responsible for submitting a completed SOA package to the Division of Accounting (DofA). The security and correct use of the CAL-Card are the responsibilities of the CH and the AO.

### Issue:

There are 28 CHs and 8 AOs in the district. We reviewed and tested 17 completed SOA packages. A form ADM-1415, Purchase Request (PR), is required for each purchase and must be included with the SOA package. Based upon our interviews, observations, and testing, the District 9 Maintenance CAL-Cards are adequately safeguarded, restricted, and used for authorized purposes only. However, we did note the following weaknesses:

- Four (4) SOAs contained PRs with no prior approval signature on the PR. When prior purchase approval was not readily available, some cardholders obtained verbal or electronic (e-mail) prior approval. However, verification of verbal approvals was not consistently maintained within the SOA packages.
- Seven (7) SOAs contained PRs that were missing "received by" signatures to verify receipt of goods.
- Ten (10) SOAs contained PRs that were completed after purchased goods were received.
- From July 2008 through March 2009, 17 SOAs were submitted to the DofA after the eighth of the month.
- All SOA packages are not kept in a central location for a period of five (5) fiscal years.

The Cal-Card Handbook (Handbook) requires the following:

- Section 3.1 states, "Approval is necessary before making any purchase, and the approval must be documented in the procurement file." This section also requires signatures of the requestor and approver on the PR. Furthermore, the PR should be prepared prior to making the purchase or as soon as possible thereafter.
- Section 3.7 requires validation of receipt of goods by filling in the "Date Received" and "Received by Signature" sections of the PR.
- Section 6.2 of the Handbook requires the SOA package be sent to the VISA Payments Section of DofA so it arrives by the 8<sup>th</sup> of the month.
- Section 3.11 of the Handbook requires retention of all CAL-Card records for five (5) fiscal years in a centrally located secure area.

Cardholders are field maintenance employees who are not in an office all day, making it difficult to consistently obtain approval, prepare, and obtain signatures on the PRs, and prepare and submit SOA packages in a timely manner. The CHs and AOs were not aware of the requirement to maintain CAL-Card records in a central location for five (5) years. Noncompliance with the Handbook may result in unnecessary and/or unauthorized purchases, inappropriate use of taxpayer's money, and loss of card privileges.

The CHs and AOs do not consistently submit complete SOAs and Purchase Card Accounting and Requisition System approvals to the DofA by the eighth of the month. As a result, DofA is unable to process payment timely when the SOAs are not received by the eighth of the month.

Recommendation:

To comply with the CAL-Card Handbook, we recommend District 9 Maintenance management:

- Maintain evidence of prior purchase approval, both verbal and electronic, within the SOA packages.
- Obtain signatures in all signature fields of the PR. Specifically, the "Requested By," "Approved By," and "Received By" areas of the PR.
- Ensure PRs are completed and printed prior to the receipt of goods purchased.
- Submit complete SOA packages to DofA by the eighth of each month.
- Retain all SOAs in a central district location for a period of five (5) fiscal years.

**3. Absence of Conflict of Interest Statement ADM-3043**

Background:

In addition to CAL-Card purchases, DPAC authorizes purchases of goods and services between \$5,000 and \$100,000 through the use of a PR and the STD 65 form, Purchasing Authority Purchase Order (PAPO). The PAPO is also known as a Contract Delegation Purchase Order. DPAC has established guidelines for the use and applicability of PRs and PAPOs within their Acquisitions Manual as well as the CAL-Card Handbook.

**Issue:**

Based upon our interviews and testing, the District's PAPO process is in compliance with the Acquisition Manual guidelines. However, we noted that all PR and PAPO users, as well as CHs and AOs, had not completed a Conflict of Interest form ADM-3043.

DPAC's Acquisitions Manual requires PR and PAPO users to complete and file a Conflict of Interest form ADM-3043. Section 1.17 of the Cal-Card Handbook also requires CHs and AOs to complete and file a Conflict of Interest form.

The District's Regional Administrative Officer (RAO), CHs, and AOs were not aware of form ADM-3043; neither were the PR and PAPO users. Failure to read and sign acknowledgment form ADM-3043 may result in CHs, AOs, PR, and PAPO users not obtaining a good understanding of conflicts of interest with their duties involving CAL-Card. In addition, it provides management no documentary evidence that conflict of interest policies were disseminated.

**Recommendation:**

To comply with the Acquisitions Manual, we recommend District 9 Maintenance management ensure all CHs, AOs, PR, and PAPO users complete and retain Conflict of Interest form ADM-3043.

**4. Weaknesses in Damage Claim Process**

**Background:**

Damage to the State highway is recorded in the Integrated Maintenance Management System (IMMS) by supervisors or superintendents. When the responsible party of the damage is known, a Service Request, Accident Log, and Work Order(s) are created in IMMS. Once a service request or work order number is assigned, the cost of repair can be monitored. After all work orders are completed, the regional office validates the damage report and submits it to the DofA, Office of Accounts Receivable, for billing the responsible party. Validation is the process in IMMS that electronically transmits accident logs to the DofA for billing.

**Issue:**

We tested 13 damage claims to determine whether the District's damage claim process was in accordance with established guidelines. Based upon our interviews and testing of damage claims, we found the district's damage claim process complies with established guidelines. However, we noted the following weaknesses:

- Five (5) of 13 (38%) claims were validated over 90 days after the accident, ranging from 125 to 278 days.

- Five (5) of 13 (38%) claims lacked supporting documentation.
- Four (4) of 57 (7%) service requests were outstanding.

The Department's Maintenance Manual, Section 1.12.3, requires all Division of Maintenance personnel involved in the damage claim process to make every effort to complete the damage reporting process within 90 days. The district noted the following causes for delay:

- The length of time it takes for repair can delay the accident report processing.
- CHP reports are often time consuming to obtain, resulting in a delay in preparing the accident report.
- The delay in passing a State budget (late September this year) affects when replacement parts (curved guardrail) can be ordered.
- In District 9, the first significant snow often causes damage repair to be delayed until the spring.

A delay in the damage reporting process ultimately results in a delay in recovering funds from the responsible parties. Failing to follow the established procedure will result in losing valuable funds that were intended for highway maintenance.

#### Recommendation:

We recommend District 9 Maintenance management comply with established guidelines by:

- Completing the accident damage repair process within 90 days.
- Maintaining supporting documentation for accident log packages.
- Developing a process to monitor outstanding service requests.

### **5. Weaknesses in Bulk Fuel Management**

#### Background:

The Department purchases bulk fuel to operate its fleet of heavy equipment and vehicles. The bulk fuel program is currently operated under the Department's Division of Maintenance's Office of Emergency Management. Previously, bulk fuel was under the management of the Department's Division of Equipment (DOE). The DOE established bulk fuel procedures in the Materiel Procedures, dated April 30, 2001, and Roles & Responsibilities for Management and Control of Bulk Fuel, Policy & Procedure No. 83-2, issued December 12, 1983.

District 9 maintains twelve (12) bulk fuel stations: Each station stores diesel fuel only. We visited eight (8) bulk fuel stations, five (5) of which operate with an automatic fuel system (AFS). At AFS stations, fuel is disbursed through the use of Voyager cards. At manual stations, fuel dispensed is recorded on a disbursement form and sent to DofA.

In 2007, a Feasibility Study Report (FSR) for the Bulk Fuel Program was requested and prepared by the independent consulting firm of Cambria Solutions. The FSR results were issued in

June 2007 and reviewed by our office shortly thereafter. The FSR identified key internal control elements and recommended corrective actions. Our review of the FSR identified three main findings that were reported to the Division of Maintenance as follows:

1. Weak security, accountability, and oversight of both the manual and automated bulk fuel systems.
2. Lack of written policies and procedures for the automated bulk fuel system.
3. The automated bulk fuel system does not adhere to Information Technology standards.

**Issue:**

Through our on-site visits, interviews, and testing, we found the following:

- Five (5) of 8 bulk fuel stations visited operate an automated fuel system. Recapitulation and disbursement record forms are not completed at these stations and guidelines have not been updated to reflect the automated process.
- InyoKern and Tehachapi perform month-end dipstick readings, but not before and after fuel deliveries. In addition, no dipstick measurements are taken at Mojave and the five maintenance stations with automated bulk fuel systems.
- Adequate controls are maintained over the voyager cards. However, bulk fuel tanks are not locked. Yards are fenced, gated, and locked at night, with the exception of the Crestview Maintenance Station.

These weaknesses are consistent with the findings reported to the Division of Maintenance in 2007.

Materiel Procedures Chapter 4.7:2.01 and Roles & Responsibilities for Management and Control of Bulk Fuel, Policy & Procedure No. 83-2 require the following:

- Accurate completion of Forms FA-0095 (Recapitulation Form) and DME-0045 (Disbursement Records).
- Regular dipstick measurements to identify variances in bulk fuel inventory. If a variance of 2 percent or more exists, the variance should be investigated and resolved.
- Adequate levels of control to safeguard the fuel.

In addition, SAM Section 20050 requires that State entities establish and maintain internal controls to ensure the proper safeguarding of assets.

Maintenance supervisors did not complete forms FA-0095 and DME-0045 because they understood the automated bulk fuel system does not require the completion of these forms. They believe the automated system now tracks the fuel transaction and the information is directly forwarded to Headquarters. The automated system is designed to track fuel deliveries and

disbursements. However, it doesn't always work and there is no analysis of variances between fuel gauges and automated records.

Neglecting to perform dipstick readings and complete forms FA-0095 and DME-0045 will result in failure to detect and investigate fuel variances. Neglecting to properly secure bulk fuel tank areas increases the likelihood of theft. As a result, there is no assurance that bulk fuels are adequately safeguarded against misuse and theft.

**Recommendation:**

To safeguard bulk fuel, we recommend District 9 Maintenance management:

- Work with headquarters to update the Bulk Fuel Program policy to address the needs of the automated bulk fuel system.
- Ensure that Maintenance staff follows procedures outlined in the policy and procedure manual No. 83-2, which includes completing forms FA-0095, DM-E45, and performing regular dipstick readings at all bulk fuel stations.
- Ensure bulk fuel stations and yards are locked.

**6. Chemical Inventory Control Deficiencies**

**Background:**

The Department's Landscape Crews within the Division of Maintenance are responsible for controlling plants growing on State highway roadsides. Crews use various chemicals/herbicides/pesticides to achieve this objective. District Maintenance Stations are responsible for storing and using pesticides in accordance with California Department of Pesticide Regulation rules and regulations as well as the guidelines established in the Department's Maintenance Manual.

All District 9 landscape chemicals are stored at the Mojave Maintenance Station.

**Issue:**

We interviewed landscape supervisors, reviewed applicable guidelines, visited the storage area, and conducted a chemical inventory count to determine whether chemical inventories are adequately safeguarded and in compliance with Maintenance Manual guidelines. Based upon the work performed, we found the following:

- Variances between IMMS and physical inventory counts are not investigated and reconciled.
- Segregation of duties over the chemical inventory process does not provide for an independent physical inventory. This issue was previously identified and communicated in our report dated January 31, 2007, File No. P3030-0632.

IMMS Crew Training Manual, Adjust Part Levels, requires that supervisors count parts as requested each month and notify the superintendent of any adjustments needed with an explanation of why the adjustment is needed.

The Department's Maintenance Manual, Chapter 2.10.1, Resource Management, states, "It is the policy of Caltrans to maintain inventory control and accountability of all material until such items are put into use." The purpose of inventory control is to safeguard assets. Government Code (GC) 13403 states the elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to, a plan of organization that provides segregation of duties appropriate for proper safeguarding of State assets.

The employee performing the inventory was unaware that physical inventory should be conducted by an independent party. Since there had been few variances in the past, no reconciliation of inventory had been performed.

Physical inventory levels that are not reconciled to the IMMS balances could result in theft or misuse of landscape chemicals not being identified and reported. In addition, the inventory reported in IMMS would not reflect the actual quantities on hand.

#### Recommendation:

We recommend District 9 Maintenance management:

- Ensure any variances noted during the monthly inventory counts are investigated and accounted for.
- Ensure separation of duties over chemical inventory.

### **7. Explosives Control Deficiencies**

#### Background:

Explosives are used by the Department for avalanche control in remote areas where accumulation of snow may impede travel on State highways. Maintenance employees handling explosives must be experienced and certified. The Department has established explosive guidelines in the Caltrans Maintenance Blasting Manual. The district stores all explosives at the Crestview Maintenance Station.

#### Issue:

We performed a physical inspection of the Crestview Maintenance Station and an inventory count of the explosives. We identified the following internal control deficiencies:

- Five (5) of 21 inventory counts recorded in IMMS, per the Stock information Inventory Summary, did not agree to existing manual records.
- The magazine which stores explosives did not have the proper warning label identifying the nature and danger of the contents stored within.

These issues were previously identified and communicated to the district in our prior maintenance review report issued January 31, 2007, File No. P3030-0632.

The Department's Maintenance Manual, chapter 2.10.1, Resource Management states, "It is the policy of Caltrans to maintain inventory control and accountability of all material until such items are put into use."

Additionally, the Caltrans Maintenance Blasting Manual requires an accurate magazine inventory. Adequate records shall be maintained at all times to detect theft or loss. Theft or loss of inventory must be reported to the Bureau of Alcohol, Tobacco and Firearms (ATF) and appropriate local authorities.

The Blasting Manual also states, "Signs reading "EXPLOSIVES, KEEP OFF" shall be located on all approaches to the magazine and placed so that a bullet passing through the sign would not strike the magazine."

Given the nature of explosive inventory, rounding variances occur due to the volume of the spools of detonating cords. It is challenging to accurately count feet of cord in the spool. There is also evaporation of liquids and inadequate inventory adjustments related to defective materials resulting in inaccurate counts. The District has not posted signs because they did not want to draw attention to the explosives stored in the magazine.

Inadequate inventory counts may result in theft or loss not being detected or reported to the ATF. Without proper warning labels, the Department will be liable for any injuries and/or damage sustained at or near the magazine.

**Recommendation:**

We recommend District 9 Maintenance management:

- Implement a counting method to accurately record inventory, particularly the spools of detonating cord.
- Accurately record receipt and use of explosive inventory to keep the records and physical inventory consistent.
- Account for any faulty or evaporated items by deducting from the reports.
- Place warning signs, for identification of explosives, at and near the magazine.
- Ensure there is separation of duties for explosive inventory and counts.